

Notification template for measures to be taken under Article 458 of the Capital Requirements Regulation (CRR)

Template for notifying the European Central Bank (ECB), the European Systemic Risk Board (ESRB) and the European Commission of stricter national measures pursuant to Article 458(2) CRR and for requesting the ESRB to issue a recommendation to other Member States to reciprocate the measures pursuant to Article 458(8) CRR

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- macropru.notifications@ecb.europa.eu when notifying the ECB (under Article 5 of the Single Supervisory Mechanism Regulation (SSMR)¹);
- [DARWIN/ASTRA](#) when notifying the ESRB;
- FISMA-E-3-NOTIFICATIONS@ec.europa.eu when notifying the European Commission.

The ESRB will forward this notification to the European Parliament, the European Council and the European Banking Authority (EBA) without delay. This notification will be made public by the ESRB after the relevant authorities have adopted and published the notified macroprudential measure².

E-mailing/uploading this template to the above addresses constitutes official notification; no further official letter is required. To facilitate the work of the notified authorities, please submit the notification template in a format that allows the information to be read electronically.

1. Notifying national authority and scope of the notification	
1.1 Name of the notifying authority	Ministry of Finance
1.2 Country of the notifying authority	Norway
1.3 Categorisation of the measure	The Ministry intends to implement a stricter national measure regarding risk weights for targeting asset bubbles in the commercial property sector, pursuant to Article 458 (10) of the CRR. A similar measure targeting the residential property sector is the subject of a separate notification.
1.4 Request to extend the period of application of an existing measure for up to two additional years (Article 458(9) CRR)	The measure would extend the existing risk weight floor targeting asset bubbles in the corporate real estate sector, which was initially implemented with effect from 31 December 2020. The existing risk weight floor was implemented due to increased systemic risk resulting from high price increases on corporate real estate and increased debt for real estate companies. Prices on corporate real estate have increased significantly from 2019 to 2021, and there is increased uncertainty regarding the corporate real estate market ahead, due i.a. to the long-term impact of the covid-19 pandemic, increased geopolitical and climate risk and a

¹ Council Regulation (EU) No 1024/2013 of 15 October 2013 conferring specific tasks on the European Central Bank concerning policies relating to the prudential supervision of credit institutions (OJ L 287, 29.10.2013, p. 63).

² On request by the notifying authority, it may be agreed with the Head of the ESRB Secretariat that this notification, or a part thereof, should not be published for reasons of confidentiality or financial stability.

	deteriorated economic outlook. A risk weight floor of 35 pct. is still considered sufficient, but the Ministry is continuously assessing the need to amend the floor or introduce other measures in light of relevant developments. See further elaborations on the systemic risks related to the corporate real estate market in section 4.1.
1.5 Notification of a measure to which Article 458(10) CRR applies ('notification only procedure')	The intended measure is subject to the procedure set out in Article 458 (10) of the CRR, as it extends the average risk weight floor at the same level as today.
2. Description of the measure	
2.1 Draft national measure (Article 458(2)(d) CRR)	<p>The intended measure comprises a floor for (exposure-weighted) average risk weights of 35 pct. for Norwegian corporate real estate exposures. Where the exposure-weighted average risk weight is lower than the floor, the total risk-weighted assets (RWA) should be increased correspondingly. Each institution's increase in risk-weighted assets would be the following:</p> $\Delta RWA = \max(0, 35\% - RW_{CRE}) * EAD_{CRE}$ <p>Where RW_{CRE} are the exposure-weighted average risk weight for non-defaulted exposures for the corporate real estate portfolio.</p> <p>Article 458(10) of the CRR is the legal basis for the measure as implemented in the CRR/CRD IV regulation § 2.</p>
2.2 Scope of the measure (Article 458(2)(d) CRR)	The risk weight floor would be applicable for all Norwegian institutions with the relevant exposures and using the Internal Ratings Based Approach (IRB institutions). Moreover, the Ministry requests the ESRB to issue a recommendation to other Member States to reciprocate the measure, see section 6.3.
2.3 Calibration of the measure	<p>The calibration of the risk weight floor is aligned with current IRB practices allowed by the Financial Supervisory Authority of Norway (Finanstilsynet). The Norwegian institution employing the most advanced modelling for such exposures, has an average risk weight just over 35 pct. Considering the potential losses associated with commercial real estate exposures (see sections 2.4 and 4), a risk weight floor of 35 pct. is considered appropriate, even though it is not expected to affect Norwegian institutions' risk-weighted assets in the short-term. For branches of foreign IRB institutions, however, the floor would have substantial effect on risk-weighted assets.</p> <p>The floor is i.a. based on the risk weight formula using PD and LGD levels of 1 and 20 per cent, respectively, which are considered minimum levels as portfolio averages. A study suggests that the capital required with the existing risk weight floor of 35 pct. would be sufficient to cover losses incurred in the moderate downturn of 2002-2003, but not to cover losses on commercial real estate exposures during the Norwegian banking crisis in 1988-1993.³ On the other hand, risk weight floors should not be set in a way that weaken banks' incentives to provide low-risk loans. This is of particular importance for lending segments where credit risk varies widely, such as</p>

³ Andersen, Henrik (2019), [How much CET1 capital must banks set aside for commercial real estate exposures?](#) Norges Bank Staff Memo 10/2019.

	the commercial real estate market. Overall, this suggests that the floor is at a reasonable level.
2.4 Suitability, effectiveness and proportionality of the measure (Article 458(2)(e) CRR)	<p>The calibration of the proposed measure is considered to be proportionate with the intensity of cyclical systemic risks associated with Norwegian property markets, and in particular with the risk of potential asset bubbles in the commercial immovable property sector (see section 4.1). The measure is suitable to ensure that domestic institutions meet a certain minimum standard as regards risk-weighting at the portfolio level. If reciprocated, it would also be the most effective measure to ensure appropriate risk weights in the Norwegian branches of foreign IRB institutions.</p> <p>Reciprocation by other EEA States will be crucial to ensure appropriate treatment of such exposures by foreign institutions, as well as to avoid leakages and regulatory arbitrage (see section 6).</p>
2.5 Other relevant information	A draft measure proposed by Finanstilsynet to increase the floor was on a public consultation until 29 November. Norges Bank has recommended an extension of the floor at 35 pct.
3. Timing for the measure	
3.1 Timing for the decision on the measure	16/12/2022
3.2 Timing for publication	16/12/2022
3.3 Disclosure	The Ministry of Finance will publish this notification on the same day as it is submitted, as an attachment to a news item.
3.4 Timing for application (Article 458(4) CRR)	31/12/2022
3.5 Duration of the measure (Article 458(4) CRR)	The measure is intended to be in effect for a minimum of two years. The Ministry of Finance will assess the need to renew the measure well before the term would expire. After implementation of the measure, the Ministry will monitor and regularly assess risk developments and the need to amend the measure, including the need for deactivation before the term expires.
3.6 Review (Article 458(9) CRR)	The appropriateness of the measure will be assessed regularly, and the measure will be reviewed with a view to renew or deactivate it well in advance of the expiration of the 2 year-term.

4. Reason for the activation of the stricter national measure

4.1 Description of the macroprudential or systemic risk in the financial system (Article 458(2)(a) CRR)

Overview

The key vulnerabilities in the financial system in Norway are high household debt, high housing prices and high commercial property prices. Residential real estate and commercial real estate represent the two largest lending segments for Norwegian institutions, and combined they constitute more than ¾ of the institutions' lending. The significant and prolonged increase in real estate prices and household debt have led to a build-up of financial imbalances, and an increase of systemic risk related to credit institutions' real estate exposures in Norway.

Finanstilsynet and Norges Bank regularly carry out analyses of systemic risks in Norway. The evidence presented in this notification is based on these authorities' latest risk reports.⁴

Risk stemming from the commercial property market

The prices of commercial properties, especially high-quality properties at prime locations in Oslo, have risen significantly over several years. Given their high share of lending to CRE companies, this has contributed to higher vulnerabilities for credit institutions in Norway. In the past, prices of commercial property have proven to be more cyclically sensitive than house prices. According to IMF there are signs of overvaluation in commercial property prices in Norway. A 2017 IMF report highlighted the fact that the price-to-rent ratio is close to the levels seen before the global financial crisis, and more so than in most other comparable countries.⁵ The IMF also points to the continued and significant increase in commercial real estate prices as a vulnerability in its 2020 Financial Sector Assessment Program.⁶ From 2019 to 2021, price indicators show a 12 percentage point increase for office properties in central Oslo.⁷ Over the same period, rental prices are unchanged on average.

Increased climate risk and long-term impact of the covid-19 pandemic, including wider use of flexible working arrangements, may affect corporate real estate valuations ahead. Furthermore, the economic outlook has deteriorated, and there is greater uncertainty than in normal times surrounding the economic outlook. Supply chain disturbances, due to lasting effects of the covid-19 pandemic and the war in Ukraine, has

⁴ Finanstilsynet's [Financial Outlook June 2022](#) and [Financial Outlook December 2022](#), and Norges Bank's [Financial Stability 2022](#).

⁵ See [Norway: 2017 Article IV Consultation-Press Release; and Staff Report](#) (in particular Figure 7), IMF Country Report No. 17/181

⁶ See [Norway: Financial System Stability Assessment-Press Release; and Statement by the Executive Director for Norway](#), IMF Country Report No. 2020/259

⁷ See Finanstilsynet's [Risk Outlook June 2022](#)

	<p>reduced growth expectations and contributed to increasing interest rates to reduce inflation globally and in Norway. Statistics Norway and Norges Bank predict a gradual decline in economic activity in mainland Norway in the years to come, and a moderate decline in housing prices. However, the development is highly uncertain. Statistics Norway and Norges Bank underline that the Norwegian and the international economy is at risk of facing stagflation, where inflation remains high while the real economy stagnates. These factors increase the probability of systemic risks materialising in substantially increased losses on the banks' corporate real estate portfolios in the years to come.</p> <p>Risks related to Norwegian commercial real estate markets are analysed in detail in a report from Finanstilsynet from June 2022.⁸</p>
<p>4.2 Analysis of the serious negative consequences or threat to financial stability (Article 458(2)(b) CRR)</p>	<p>Norwegian and foreign IRB institutions are crucial for the credit supply to households and corporates in Norway. The IRB institutions have a combined market share of approximately ¾ in the Norwegian credit market. A disruption of the credit supply could have severe consequences for the real economy. For example, a negative shock in domestic property markets or tightened consumption may cause a significant increase in credit losses. With insufficient levels of loss absorbing capital, this would constrain the institutions' capacity to provide new credit and hence amplify a downturn in the Norwegian economy. As institutions established in other Nordic countries have significant operations in Norway, turbulence in the Norwegian financial system may easily spread to neighbouring systems.</p> <p>Losses on commercial real estate exposures have been low in normal times, but high during crises, both in Norway and other countries. Commercial real estate is the sector that has inflicted the most losses for Norwegian institutions during crises. Historically, a strong price rise for commercial property has often preceded a sharp price fall. Since yields are low, an interest rate increase or higher risk premium may lead to a sharp fall in commercial property prices. A downturn in the Norwegian economy could result in higher office vacancy rates. This will impair the debt servicing capacity of commercial real estate companies. If commercial property prices fall at the same time, bank losses may rise considerably.</p> <p>During the Norwegian banking crisis (1988-1993) high interest rates and declining consumption led to large losses for banks in the commercial real estate sector. On average, prices fell by approximately 40 pct. By comparison, stress tests conducted by Finanstilsynet assume that corporate real estate prices will fall by 42 pct. between 2022 and 2025 in the event of a severe stress, inducing significant losses. The loss estimates are highly sensitive to the size of the price reductions, and there is significant risk that</p>

⁸ See Finanstilsynet's [Risk Outlook June 2022](#).

	<p>losses on defaulted exposures may be higher than the average price reduction.</p>
<p>4.3 Indicators prompting the use of the measure</p>	<p>The main indicators are:</p> <ul style="list-style-type: none"> • Institutions' commercial real estate lending relative to all lending • Commercial real estate prices • Office rental prices • Banks' losses on commercial property loans in percent of gross lending • Loan-to-value ratio on commercial property loans • Average risk weights for real estate exposures in IRB institutions <p>Data files are available upon request.</p>
<p>4.4 Justification for the stricter national measure (Article 458(2)(c) CRR)</p>	<p>Objective</p> <p>The measure will ensure that all Norwegian IRB institutions employ appropriate risk weights at the portfolio level for their commercial real estate exposures in Norway, given the prevailing systemic risks associated with these exposures. The proposed measure may also function as a backstop accounting for uncertainty in IRB models, stemming i.a. from data largely being collected over periods of positive economic development.</p> <p>Other measures considered</p> <p><i>Article 124 of the CRR</i> concerns risk weights under the Standardised Approach, which in Norway remains at 100 pct. This level is considered adequate for institutions using the Standardised Approach.</p> <p><i>Article 164 of the CRR</i> enables authorities to increase the LGD floor for IRB institutions' retail exposures, which is not applicable to commercial real estate exposures.</p> <p><i>Article 133 of the CRD</i> allows for requiring a systemic risk buffer to target long-term systemic risks. The Ministry of Finance has set a buffer requirement at a level which is commensurate with the level and intensity of such risks in the Norwegian financial system. While structural and cyclical systemic risks may not always be easily distinguishable, the risk-weight floor for commercial real estate exposures is primarily intended to mitigate risks associated with potential asset bubbles and financial imbalances, which have been increasing in recent years. Although systemic risk buffers may apply specifically to real estate exposures, they would not ensure that the increased risks in the real estate markets are reflected in the risk weighted exposure amounts underlying the capital and buffer requirements. As cyclical systemic risks are particularly present and elevated in regards to real estate exposures, IRB risk weight floors would be the more efficient tools to apply in the current environment.</p> <p><i>Article 136 of the CRD</i> requires the setting of a countercyclical capital buffer to address time-varying systemic risks. The buffer rate in Norway has been</p>

	<p>increased to 2.0 pct. and will be further increased to 2.5 pct. effective from 31 March 2023, justified to a certain extent by the same developments that necessitates IRB risk weight floors for commercial real estate exposures. However, the countercyclical capital buffer does not target commercial real estate exposures in particular, and it does not promote an adequate level of average risk weights across all IRB institutions in Norway.</p>
<p>5. Sufficiency, consistency and non-overlap of the policy response</p>	
<p>5.1 Sufficiency of the policy response</p>	<p>The measure will contribute to resilience in the Norwegian financial system, by maintaining corporate real estate risk weights at sufficiently prudential levels.</p>
<p>5.2 Consistency of application of the policy response</p>	<p>The measure is consistent with other measures implemented by the Ministry of Finance and Finanstilsynet aiming to maintain or increase the resistance in the financial sector.</p> <p>Pursuant to article 124 of the CRR, the Ministry of Finance has decided to maintain a risk weight for corporate real estate exposures at 100 pct. for institutions using the Standard Approach to credit risk. This level is considered adequate considering the current risks associated with the Norwegian corporate real estate market.</p> <p>Moreover, the measure is consistent with Finanstilsynet's general practices for IRB-supervision. Due to the considerable uncertainty regarding the institutions' data, which primarily cover a positive period for the Norwegian economy, Finanstilsynet outlined in a circular its expectations for calibration of IRB-models, aiming to achieve adequate risk weights.⁹ To ensure consistency across member states and across institutions operating in the Norwegian market, it is important that the risk weight floor also applies to foreign institutions operating in Norway.</p>
<p>5.3 Non-overlap of the policy response</p>	<p>The risk-weight floor is non-overlapping but complementary to the level of the systemic risk buffer requirement. The Ministry of Finance has set a systemic risk buffer requirement at a level which is commensurate with the level and intensity of structural long-term risks in the Norwegian financial system. While the structural and cyclical dimensions of systemic risk are not easily distinguishable, especially when it comes to debt and real estate prices, the risk-weight floor is primarily intended to mitigate the cyclical systemic risks associated with potential asset bubbles and financial imbalances related to the corporate real estate market, which have been increasing in recent years (see section 4.1). The risk weight floor is also considered complementary insofar as the systemic risk buffer increases the pillar 1 capital requirement for all exposures in Norway, whereas the risk-weight floor is intended to help prevent underestimation of the risk-weighted exposures.</p>

⁹ See [Finanstilsynets circular 3/2021](#)

6. Cross-border and cross-sector impact of the measure	
<p>6.1 Assessment of cross-border effects and the likely impact on the Internal Market (Article 458(2)(f) CRR and Recommendation ESRB/2015/2¹⁰)</p>	<p>The measure will promote domestic financial stability in Norway by contributing to an average risk-weighting of corporate real estate exposures that is considered appropriate in the current risk environment. If authorities of other EEA states reciprocate the measure, it may have a positive impact on other EEA markets where the relevant institutions have activities, since it could increase institutions' loss-absorbing capacity related to Norwegian credit exposures. A misalignment of risks and loss-absorbing capital associated with the Nordic institutions' Norwegian operations may have repercussions for the institutions' ability to serve other markets. For several institutions domiciled in other Nordic countries, lending in the Norwegian market constitutes a significant portion of their total lending. Reciprocity in the Nordic region is particularly facilitated by a MoU signed by the relevant Nordic ministries in 2016, which acknowledges ESRB recommendations as a "minimum standard for reciprocity in macro-prudential matters".¹¹</p>
<p>6.2 Assessment of leakages and regulatory arbitrage within the notifying Member State</p>	<p>The measure is not expected to contribute to leakages or regulatory arbitrage within the Norwegian financial system. Experiences with current capital levels in Norwegian institutions do not suggest that there is significant potential for migration to "shadow banking" or other sectors of the financial system. The scope for regulatory arbitrage is generally very limited within the Norwegian financial system, owed to a consistent adherence to the principle of "same risk, same regulation".</p> <p>If domestic macroprudential policy measures are not reciprocated, however, there may be risks associated with leakage from the domestic financial system to other EEA systems. The effectiveness of the measures would then be undermined.</p>
<p>6.3 Request for reciprocation by other Member States (Article 458(8) CRR and Recommendation ESRB/2015/2)</p>	<p>Do you intend to ask the ESRB to issue a recommendation to other Member States to reciprocate the measure in accordance with Article 458(8) CRR?</p> <p>Yes</p> <ul style="list-style-type: none"> - If yes, please provide in Section 6.4 the justification for that reciprocity. - If no, what are the reasons for not requesting reciprocation?

¹⁰ Recommendation of the European Systemic Risk Board of 15 December 2015 on the assessment of cross-border effects of and voluntary reciprocity for macroprudential policy measures (ESRB/2015/3) (OJ C 97, 12.3.2016, p. 9).

¹¹ [Memorandum of understanding between the Finnish, Norwegian and Swedish Ministries of Finance and the Danish Ministry of Business on cooperation regarding significant branches of cross-border banking groups](#), published on the Ministry of Finance website on 19 December 2016.

<p>6.4 Justification for the request for reciprocity by other Member States</p> <p>(Article 458(8) CRR and Recommendation ESRB/2015/2)</p>	<p>The measure comprises a floor for average risk weights of 35 pct. for Norwegian corporate real estate exposures.</p> <p>Institutions established in other Member States have significant exposures and activities in the Norwegian lending market, and should be subject to the same requirements as Norwegian institutions.</p> <p>Lending from branches of banks from other Nordic countries constitutes around 1/3 of the Norwegian bank lending market. In an integrated financial system like the Nordic banking market, strong policy coordination is needed to ensure the effectiveness of national macroprudential policies.</p> <p>Coordination based on the competence of national authorities to assess which macroprudential measures are necessary to facilitate financial stability given national vulnerabilities, is a matter of common interest. Reciprocity will be crucial in order to avoid leakages and regulatory arbitrage, in addition to ensuring that the foreign institutions' loss-absorbing capacity is aligned with their risk exposure in the Norwegian market.</p> <p>ESRB recommended reciprocity of the current Norwegian risk-weight floor at 35 pct. for corporate real estate exposures in Norway, which is now extended at the same level with this review.</p> <p>The materiality threshold for reciprocity of the current risk-weight floor was set to 1 per cent (7.6 bn. NOK) of gross collateralised commercial real estate lending to Norwegian customers, adjusted to account for branches' share of total lending in Norway, confer the Ministry of Finance's letter to the ESRB of 2 February 2021. The Ministry of Finance proposes to maintain the materiality threshold at NOK 7.6 billion gross CRE lending to Norwegian customers.</p>
<p>7. Miscellaneous</p>	
<p>7.1 Contact person(s)/mailbox at notifying authority</p>	<p>Name: Tormod Fauske Tho</p> <p>Phone: +47 22 24 45 11 / +47 22 24 45 21</p> <p>E-mail: tho@fin.dep.no</p>
<p>7.2 Any other relevant information</p>	<p>The Ministry of Finance has submitted another notification together with this Notification, which notifies the intended use of measures in accordance with Article 458 (10) of the CRR (a floor for average risk weights for residential real estate exposures).</p>
<p>7.3 Date of the notification</p>	<p>Please provide the date on which this notification was uploaded/sent.</p> <p>16/12/2022</p>